

# GVNW

January 8, 1997

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW Room 222  
Washington, DC 20554

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Dear Mr. Caton:

Enclosed are the original and four copies of the reply comments of GVNW Inc./Management in response to the Commission's Public Notice in CC Docket 96-45 (Reference DA No. 96-1891) released November 8, 1996.

Also enclosed is one copy of our reply comments to be stamped and returned in the enclosed self addressed stamped envelope.

Any questions regarding this filing may be directed to me at (503) 624-7075.

Sincerely,

*Kenneth T. Burchett*  
Kenneth T. Burchett  
Vice President

cc: International Transcription Service  
2100 M Street N.W.  
Room 140  
Washington, DC 20037

Sheryl Todd (Diskette)  
Common Carrier Bureau  
2100 M Street N.W.  
Room 8611  
Washington DC 20554

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GVNW Inc./Management  
Reply Comments Docket 96-45  
January 10, 1997

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

### **REPLY COMMENTS OF GVNW INC./MANAGEMENT**

#### **Summary**

GVNW Inc./Management (GVNW) is a management consulting firm which provides financial and regulatory consulting services to independent telephone companies. These comments focus primarily on the impact the Joint Board Recommendations may have on small rural LECs and, ultimately, on the provision of quality universal service at affordable prices throughout rural America.

We are concerned that the Joint Board recommendations are lacking in specificity. We are unable to adequately evaluate the impact of the Joint Board proposal on our clients because specific rules are not included in the recommendations. Without detailed rules and procedures, local exchange providers are being asked to play a dangerous game with only the vaguest understanding of the rules and the cost. This is clearly an unacceptable standard for establishing critical telecommunications policies.

### **No Proxies for Rural Companies**

None of the proxy models presently being evaluated have been proven to accurately replicate the actual telephone network necessary to serve rural areas. In the event it is determined that proxy models should be utilized by rural companies, the Commission should delay such a requirement until a model is developed which approximates the cost of a "real" network. Requiring a transition to a proxy system prior to the development of an acceptable and adequately tested model is clearly unacceptable. The Commission has a congressional mandate to develop support mechanisms which are specific, predictable, and sufficient to preserve and advance universal service.<sup>1</sup> Adopting a rule requiring companies to transition to a model which has not yet been developed fails to meet this mandate. The shortfalls of models and the process have been expressed by many parties<sup>2</sup>. The Commission must postpone any decision to require rural companies to transition to a proxy model until such time as an appropriate model is developed and tested. Until that time, rural companies should continue to receive funding based on actual historical costs.

### **Frozen Support Computations**

The Joint Board recommendation is lacking in specificity in regards to the rule changes to implement their recommendation for using embedded costs to establish a

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<sup>1</sup> Telecommunications Act of 1934 as amended by the Telecommunications Act of 1996 Section 254(b)(5).

<sup>2</sup> Rural Telephone Coalition (RTC) pages 4-10, Small Western LECs pages 8-11, TDS Telecommunications Corporation (TDS) and Century Telephone Enterprises (Century) pages 6-7, Western Alliance pages 32-34.

transition period for rural companies. We ask that the Commission consider the following items so as to minimize the implementation problems associated with the Joint Board recommendations.

First, the three mechanisms which are being addressed (i.e. the Long Term Support (LTS), the switching support (DEM Weighting), and the high cost loop support (USF)) are all interstate support mechanisms incorporated in the Part 36 Jurisdictional Separations rules and the Part 69 Access Charge rules.

- USF is currently addressed in Subpart F of the Jurisdictional Separations Rules. Part 36.601(a) requires the USF be assigned to the interstate jurisdiction by way of an expense adjustment, shifting expense from the state jurisdiction to the interstate jurisdiction. This USF expense adjustment is then assigned to the Interstate Universal Service Fund Access Element per Part 69.413 of the Access Charge Rules.
- DEM Weighting is currently addressed in Part 36.125 of the Separations rules and results in an increased assignment to the interstate jurisdiction. While the weighting is identified, the amount of support is not specifically identified in the rules. The support amount is included with the rest of the interstate switching investment as it goes through the separations and access charge cost assignment rules. The switching investment, including the weighting piece are assigned to the Local Switching Element in Part 69.306(d).

- The LTS is not specifically identified in the Part 36 Jurisdictional Separations rules, rather it is part of the interstate allocation resulting from the Exchange Line Cable and Wire Facilities Category 1.3 assignment per Part 36.154. The Part 69 rules result in a portion of the Common Line costs for pooling companies being recovered through the LTS. Part 69.612 of the Access Charge Rules address the LTS.

While the recommendation is not specific on how the DEM weighting rules will change to accommodate the new procedures, we believe it was the Joint Board's intent to remove the Weighting procedures from Part 36.125, and include the switching support with the USF in subpart F. This would result in an expense adjustment assigning the support requirement to the interstate jurisdiction. With this approach, there would be no need for a specific change in the Part 69 rules to accommodate the switching support changes.

The Joint Board's intent is not as clear with regards to the changes required to implement the LTS portion of support. While it may be possible to modify the allocation procedures in 36.154 to remove a portion related to LTS, and incorporate the LTS in the expense adjustment in Subpart F, we believe it administratively more feasible to address the LTS support in the Part 69 rules by assigning the LTS portion of common line to the Universal Service Access Element.

Several Parties identified problems with freezing the support using the time periods specified in the Joint Board recommendation<sup>3</sup>. We believe the proposals laid out by the United States Telephone Association in the appendix to its comments provides a reasonable methodology to address many of the concerns which were raised.

### **Recovery of Universal Service Tax**

The Joint Board recommended the New Universal Service Fund be funded in a manner similar to the TRS approach.<sup>4</sup> GVNW does not believe this approach comports with the congressional mandate for explicit funding, as this approach simply taxes the telecommunications providers then requires them to change their rates and obtain cost recovery through implicit means from their customers. It is also not clear exactly how the Joint Board intended the tax (contribution) to be accounted for and allocated in the Commission's Accounting Rules (Part 32), Separations Rules (Part 36), and in the Access Charge Rules (Part 69). Based on our understanding of the current rules, we would anticipate this payment being recorded in Account 7240, Operating Taxes-Other. This payment would then be jurisdictionalized per the Part 36 rules and assigned to the access elements per the Part 69 rules.

Presently the existing USF fund is paid for by the interexchange carriers. Small rural LECs have not had any funding responsibilities. With the passage of the Telecommunications Act, all telecommunications providers, including small LECs, have funding responsibilities. The potential impact of requiring small companies to implicitly

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<sup>3</sup> United States Telephone Association (USTA) pages 25-30, RTC pages 11-13, The Rural Alliance pages 4-5.

<sup>4</sup> Joint Board Recommended Decision paragraph 786.

support USF may be enormous if current cost estimates are correct. For example, in the Separate Statement of Commissioner Julia Johnson and Chairman Sharon L. Nelson,<sup>5</sup> it is stated that the size of the Fund may range as high as \$14 Billion. If interstate gross revenues are the base for this computation, the tax rate (contribution rate) may be as high as 17.5% of gross interstate revenues. This estimate is based on the 1995 TRS results which show approximately \$80 Billion in interstate gross revenues. We have priced out the impact of this approach for 79 of our client company study areas (see Exhibit 1). In this analysis, we used the 1996 cost data and 1997 Universal Service revenues to project interstate gross revenues. We then applied the 17.5% contribution rate to determine the contribution (or tax) for each of the client study areas. To put this tax into perspective, we divided by the estimated 1996 end of year loops and then divided the annual amount by twelve to determine the tax per loop per month. The computations result in contributions ranging from \$3.03 per loop to \$53.44 per loop per month.

Since these companies have never previously had funding responsibilities, even if the new Universal Service Fund fully replaces existing implicit subsidies, rural LEC required contributions may be so large as to jeopardize universal service. It is inconceivable that the Commission would require small companies to use implicit means to recover this large of an amount in light of the congressional mandate to make the support explicit.

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<sup>5</sup> Joint Board Recommended Decision Separate Statement of Commissioner Julia Johnson and Chairman Sharon L. Nelson page 7.

In developing procedures for implementing the contribution to the fund, we ask the Commission to consider removing from the Gross Revenue base the revenues that the small LECs receive from the Universal Service Fund. Using the TRS model, USF revenues are included in the revenue base used for calculating the contribution and we believe the inclusion of these revenues in the base is inappropriate for Universal Service contributions. We also request that small LECs be authorized to surcharge interstate customers in order to recover their required contribution to universal service.

#### **No Explicit Support For Resold Services**

In situations where a competitor moves in to a rural company's study area and becomes a competitive carrier, the Commission should clarify that the new company would only receive explicit USF funding for the services they provide on a facilities basis. The incumbent's retail price for local service will already reflect the support the incumbent LEC is receiving from the Universal Service Fund (i.e. local services are priced at artificially low levels to reflect the needed support). If competitors are allowed to take advantage of the already supported retail prices, and receive an additional payment from the Universal Service Fund, they will be double compensated with support and the incumbent who has made the investment will receive no support to cover the infrastructure that has already been installed and which is utilized to deliver telecommunications services.



**Conclusion**

In conclusion, we recommend the Commission delay any rule change requiring rural LECs to transition to a proxy until such time as an appropriate proxy has been developed, tested, and proven to approximate the cost of an actual network in rural areas. We ask the Commission to use caution in developing interim rules for rural companies to insure that costs required to provide Universal Service are included in the development of Universal Service Support. We ask the Commission to adopt a surcharge approach to funding the Universal Service Fund so that the procedure is consistent with the congressional mandate to be explicit. If the Commission does not adopt the surcharge approach, we ask that the procedures for implicit recovery be adequately addressed in the new rules and in the order adopting the new rules. Finally, we ask the Commission to provide clear rules indicating that new entrants will not receive double Universal Service Support on resold services, by obtaining both the explicit Universal Service Fund payment and a supported retail rate from the incumbent.

Respectfully Submitted

GVNW Inc./Management

by Kenneth T. Burchett  
Kenneth T. Burchett  
Vice President  
7125 S. W. Hampton  
Portland, Oregon 97223

**Small Company Contribution to USF assuming \$14 Billion Pool - Using  
Interstate Gross Revenues as Base (\$80 Billion in 1995 TRS)**

<b>Company Name</b>	<b>NECA Code</b>	<b>1996 Loops</b>	<b>Interstate Gross Revenues</b>	<b>Tax (Contribution) @ 17.5%</b>	<b>Tax Per Loop</b>	<b>Tax Per Loop Per Month</b>
1 Hardy	200259	2,598	\$1,811,453	\$317,004	\$122.02	\$10.17
2 EATEL	270429	31,267	\$7,447,263	\$1,303,271	\$41.68	\$3.47
3 Cass County	340984	3,104	\$796,818	\$139,443	\$44.92	\$3.74
4 Egyptian	341003	2,846	\$1,419,776	\$248,461	\$87.30	\$7.28
5 C-R Telephone	341009	958	\$570,752	\$99,882	\$104.26	\$8.69
6 Shawnee	341025	4,755	\$1,268,011	\$221,902	\$46.67	\$3.89
7 Harrisonville	341026	17,131	\$4,565,608	\$798,981	\$46.64	\$3.89
8 Home	341032	915	\$894,958	\$156,618	\$171.17	\$14.26
9 Madison	341049	1,424	\$1,305,642	\$228,487	\$160.45	\$13.37
10 Montrose Mutual	341058	1,478	\$391,647	\$68,538	\$46.37	\$3.86
11 Moultrie	341060	786	\$751,223	\$131,464	\$167.26	\$13.94
12 Ayrshire	351105	364	\$201,571	\$35,275	\$96.91	\$8.08
13 Webb Dickens	351327	441	\$169,032	\$29,581	\$67.08	\$5.59
14 Grand River (Iowa)	351888	6,078	\$1,277,485	\$223,560	\$36.78	\$3.07
15 West River (WRT & WRC)	381637	15,439	\$3,900,958	\$682,668	\$44.22	\$3.68
16 S&A	411829	866	\$953,217	\$166,813	\$192.62	\$16.05
17 Citizens	421865	3,895	\$1,365,059	\$238,885	\$61.33	\$5.11
18 Grand River (Mo.)	421888	14,200	\$3,603,143	\$630,550	\$44.40	\$3.70
19 Kingdom	421901	4,161	\$1,979,811	\$346,467	\$83.27	\$6.94
20 Dell Telephone (Tx)	442066	718	\$2,630,983	\$460,422	\$641.26	\$53.44
21 Midvale - Arizona	452226	493	\$606,766	\$106,184	\$215.38	\$17.95
22 Table Top	453334	4,471	\$2,676,244	\$468,343	\$104.75	\$8.73
23 Peetz	462196	208	\$331,855	\$58,075	\$279.20	\$23.27
24 Rico	462201	150	\$275,151	\$48,151	\$321.01	\$26.75
25 Albion	472213	1,154	\$1,549,536	\$271,169	\$234.98	\$19.58
26 Cambridge	472215	1,085	\$939,749	\$164,456	\$151.57	\$12.63
27 Filer - Idaho	472220	2,080	\$825,532	\$144,468	\$69.46	\$5.79
28 Midvale - Idaho	472226	582	\$1,106,513	\$193,640	\$332.71	\$27.73
29 Rockland	472232	309	\$765,130	\$133,898	\$433.33	\$36.11
30 Rural - Idaho	472233	520	\$672,690	\$117,721	\$226.39	\$18.87
31 Blackfoot	482235	7,300	\$3,684,690	\$644,821	\$88.33	\$7.36
32 Interbel	482242	1,500	\$1,983,006	\$347,026	\$231.35	\$19.28
33 Nemont	482247	13,555	\$9,353,198	\$1,636,810	\$120.75	\$10.06
34 Range (Mont)	482251	3,788	\$3,465,346	\$606,436	\$160.09	\$13.34
35 Southern Montana	482254	916	\$1,114,463	\$195,031	\$212.92	\$17.74
36 Triangle	482257	9,700	\$2,981,068	\$521,687	\$53.78	\$4.48
37 Clark Fork	483308	7,000	\$4,519,095	\$790,842	\$112.98	\$9.41
38 Central Montana	483310	7,600	\$4,703,500	\$823,113	\$108.30	\$9.03
39 Dell Telephone (NM)	492066	425	\$1,120,649	\$196,114	\$461.44	\$38.45
40 Baca	492259	706	\$1,041,855	\$182,325	\$258.25	\$21.52
41 Roosevelt	492272	2,148	\$1,695,515	\$296,715	\$138.14	\$11.51
42 Central Utah	502277	1,322	\$685,383	\$119,942	\$90.73	\$7.56

Small Company Contribution to USF assuming \$14 Billion Pool - Using  
Interstate Gross Revenues as Base (\$80 Billion in 1995 TRS)

Company Name	NECA Code	1996 Loops	Interstate Gross Revenues	Tax (Contribution) @ 17.5%	Tax Per Loop	Tax Per Loop Per Month
43 Emery	502278	4,486	\$1,237,566	\$216,574	\$48.28	\$4.02
44 Bear Lake	503032	690	\$360,876	\$63,153	\$91.53	\$7.63
45 Range Wy.	512251	17,200	\$7,496,924	\$1,311,962	\$76.28	\$6.36
46 Chugwater	512289	266	\$211,198	\$36,960	\$138.95	\$11.58
47 Dubois	512291	2,083	\$2,725,262	\$476,921	\$228.96	\$19.08
48 Ellensburg	522412	19,796	\$4,267,348	\$746,786	\$37.72	\$3.14
49 Midvale - Oregon	532226	225	\$350,624	\$61,359	\$272.71	\$22.73
50 Beaver Creek	532359	4,386	\$1,362,694	\$238,471	\$54.37	\$4.53
51 Canby	532362	10,048	\$2,090,826	\$365,895	\$36.41	\$3.03
52 Clear Creek	532363	3,565	\$1,253,805	\$219,416	\$61.55	\$5.13
53 Colton	532364	1,184	\$772,048	\$135,108	\$114.11	\$9.51
54 Eagle	532369	421	\$505,699	\$88,497	\$210.21	\$17.52
55 Cascade	532371	9,129	\$1,924,069	\$336,712	\$36.88	\$3.07
56 Helix	532376	278	\$520,409	\$91,072	\$327.60	\$27.30
57 Trans-Cascades	532378	158	\$463,755	\$81,157	\$513.65	\$42.80
58 Molalla	532383	5,544	\$2,383,302	\$417,078	\$75.23	\$6.27
59 Monitor	532384	659	\$450,121	\$78,771	\$119.53	\$9.96
60 Nehalem	532387	2,870	\$643,930	\$112,688	\$39.26	\$3.27
61 North State	532388	514	\$261,956	\$45,842	\$89.19	\$7.43
62 Oregon Tel	532389	1,772	\$794,444	\$139,028	\$78.46	\$6.54
63 Oregon-Idaho	532390	738	\$2,335,395	\$408,694	\$553.79	\$46.15
64 Pine	532392	821	\$1,036,509	\$181,389	\$220.94	\$18.41
65 Pioneer	532393	14,105	\$3,506,580	\$613,652	\$43.51	\$3.63
66 The Ponderosa	542332	8,194	\$7,397,878	\$1,294,629	\$158.00	\$13.17
67 Siskiyou	542339	4,560	\$3,835,391	\$671,193	\$147.19	\$12.27
68 Rural - Nevada	552233	635	\$872,578	\$152,701	\$240.47	\$20.04
69 Churchill	552349	11,700	\$4,397,379	\$769,541	\$65.77	\$5.48
70 Lincoln County	552351	2,060	\$985,356	\$172,437	\$83.71	\$6.98
71 Rio Virgin	552356	4,678	\$1,303,408	\$228,096	\$48.76	\$4.06
72 Humboldt	553304	627	\$768,188	\$134,433	\$214.41	\$17.87
73 Arctic Slope	613001	2,090	\$2,952,396	\$516,669	\$247.21	\$20.60
74 Bristol Bay	613003	1,799	\$1,264,458	\$221,280	\$123.00	\$10.25
75 Bush Tel	613004	790	\$1,213,309	\$212,329	\$268.77	\$22.40
76 Cordova	613007	2,100	\$976,709	\$170,924	\$81.39	\$6.78
77 Interior	613011	4,464	\$4,765,015	\$833,878	\$186.80	\$15.57
78 Mukluk	613016	1,047	\$1,087,293	\$190,276	\$181.73	\$15.14
79 OTZ	613019	2,848	\$1,459,383	\$255,392	\$89.67	\$7.47

## Service List

The Honorable Reed E. Hundt, Chairman Federal Communications Commission 1919 M Street, N.W. Room 814 Washington, D.C. 20554	Martha S. Hogerty Public Counsel for the State of Missouri P.O. Box 7800 Jefferson City, MO 65102
The Honorable Rachelle B. Chong, Commissioner Federal Communications Commission 1919 M Street N.W., Room 844 Washington, D.C. 20554	Paul E. Pederson, State Staff Chair Missouri Public Service Commission P.O. Box 360 Jefferson City, MO 65102
The Honorable Susan Ness, Commissioner Federal Communications Commission 1919 M Street, N.W., Room 832 Washington, D.C. 20554	Lisa Boehley Federal Communications Commission 2100 M Street, N.W., Room 8605 Washington, D.C. 20554
The Honorable Julia Johnson, Commissioner Florida Public Service Commission 2540 Shumard Oak Blvd. Gerald Gunter Building Tallahassee, FL 32399-0850	Charles Bolle South Dakota Public Utilities Commission State Capitol, 500 E. Capitol Street Pierre, SD 57501-5070
The Honorable Kenneth McClure, Commissioner Missouri Public Service Commission 301 W. High Street, Suite 530 Jefferson City, MO 65101	Deonne Bruning Nebraska Public Service Commission 300 The Atrium 1200 N. Street, P.O. Box 94927 Lincoln, NE 68509-4927
The Honorable Sharon L. Nelson, Chairman Washington Utilities and Transportation Commission P.O. Box 47250 Olympia, WA 98504-7250	James Casserly Federal Communications Commission Office of Commissioner Ness 1919 M Street, Room 832 Washington, D.C. 20554
The Honorable Laska Schoenfelder, Commissioner South Dakota Public Utilities Commission State Capitol, 500 E. Capitol Street Pierre, SD 57501-5070	John Clark Federal Communications Commission 2100 M Street, N.W., Room 8619 Washington, D.C. 20554

Bryan Clopton  
Federal Communications Commission  
2100 M Street, N.W., Room 8615  
Washington, D.C. 20554

Irene Flannery  
Federal Communications Commission  
2100 M Street, N.W., Room 8922  
Washington, D.C. 20554

Daniel Gonzalez  
Federal Communications Commission  
Office of Commissioner Chong  
1919 M Street, N.W., Room 844  
Washington, D.C. 20554

Emily Hoffnar  
Federal Communications Commission  
2100 M Street, N.W., Room 8623  
Washington, D.C. 20554

L. Charles Keller  
Federal Communications Commission  
2100 M Street, N.W., Room 8918  
Washington, D.C. 20554

Lori Kenyon  
Alaska Public Utilities Commission  
1016 West Sixth Avenue, Suite 400  
Anchorage, AK 99501

David Krech  
Federal Communications Commission  
2025 M Street, N.W., Room 7130  
Washington, D.C. 20554

Robert Loube  
Federal Communications Commission  
2100 M Street, N.W., Room 8914  
Washington, D.C. 20554

Samuel Loudenslager  
Arkansas Public Service Commission  
P.O. Box 400  
Little Rock, AR 72203-0400

Sandra Makceff  
Iowa Utilities Board  
Lucas State Office Building  
Des Moines, IA 50319

Philip F. McClelland  
Pennsylvania Office of Consumer  
Advocate  
1425 Strawberry Square  
Harrisburg, Pennsylvania 17120

Michael A. McRae  
D.C. Office of the People's Counsel  
1133 15th Street, N.W.--Suite 500  
Washington, D.C. 20005

Tejal Mehta  
Federal Communications Commission  
2100 M Street, N.W., Room 8625  
Washington, D.C. 20554

Debra M. Kriete  
Pennsylvania Public Utilities Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Terry Monroe  
New York Public Service Commission  
3 Empire Plaza  
Albany, NY 12223

John Morabito  
Deputy Division Chief, Accounting and  
Audits  
Federal Communications Commission  
2000 L. Street, N.W., Suite 812  
Washington, D.C. 20554

Diane Law  
Federal Communications Commission  
2100 M Street, N.W., Room 8920  
Washington, D.C. 20554

Mark Nadel  
Federal Communications Commission  
2100 M Street, N.W., Room 8916  
Washington, D.C. 20554

Mark Long  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Gerald Gunter Building  
Tallahassee, FL 32399

Pamela Szymczak  
Federal Communications Commission  
2100 M Street, N.W., Room 8912  
Washington, D.C. 20554

John Nakahata  
Federal Communications Commission  
Office of the Chairman  
1919 M Street, N.W., Room 814  
Washington, D.C. 20554

Lori Wright  
Federal Communications Commission  
2100 M Street, N.W., Room 8603  
Washington, D.C. 20554

Lee Palagyi  
Washington Utilities and Transportation  
Commission  
1300 South Evergreen Park Drive S.W.  
Olympia, WA 98504

Jeanine Poltronieri  
Federal Communications Commission  
2100 M Street, N.W., Room 8924  
Washington, D.C. 20554

Kimberly Parker  
Federal Communications Commission  
2100 M Street, N.W., Room 8609  
Washington, D.C. 20554

James Bradford Ramsay  
National Association of Regulatory Utility  
Commissioners  
P.O. Box 684  
Washington, D.C. 20044-0684

Barry Payne  
Indiana Office of the Consumer Counsel  
100 North Senate Avenue, Room N501  
Indianapolis, IN 46204-2208

Brian Roberts  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Gary Seigel  
Federal Communications Commission  
2000 L. Street, N.W., Suite 812  
Washington, D.C. 20554

Richard Smith  
Federal Communications Commission  
2100 M Street, N.W., Room 8605  
Washington, D.C. 20554